



STATE OF NEW JERSEY

Board of Public Utilities

*Two Gateway Center
Newark, NJ 07102
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TELECOMMUNICATIONS

IN THE MATTER OF THE VERIFIED)
PETITION FOR APPROVAL OF THE)
TRANSFER OF CONTROL OF)
ALLEGIANCE TELECOM OF NEW)
JERSEY, INC. DEBTOR-IN POSSESSION,)
TO XO COMMUNICATIONS)

ORDER OF APPROVAL

DOCKET NO. TM04020110

(SERVICE LIST ATTACHED)

BY THE BOARD:

On February 20, 2004, Allegiance Telecom Inc., Debtor-in-Possession (ATI), and XO Communications, Inc. (XO), filed for Board approval for the proposed transfer of ultimate control of ATI's New Jersey operating subsidiary, Allegiance Telecom of New Jersey, Inc. Debtor-in-Possession (Allegiance New Jersey, and together with ATI and XO, Petitioners). The transfer in control for which approval is sought will result from a proposed transaction whereby XO will acquire substantially all the assets of ATI, including the stock of Allegiance New Jersey. This transfer has arisen as the result of the Petitioner's Chapter 11 bankruptcy reorganization. Immediately after the completion of the transaction, Allegiance New Jersey will continue to offer the same services it currently provides on the same terms, rates and conditions that it currently provides to customers in the state.

BACKGROUND

Allegiance New Jersey is a Delaware corporation, with its principal offices located in Dallas, Texas. Allegiance New Jersey is authorized to provide local exchange and interexchange telecommunications services. See Order I/M/O the Petition for an Order Authorizing Allegiance Telecom of New Jersey Inc., to Provide Local Exchange and Inter-Exchange Telecommunications Services throughout New Jersey, Docket No. TE98070470, dated October 9, 1998. Allegiance New Jersey is a wholly owned, indirect subsidiary of ATI, a publicly traded corporation organized under the laws of Delaware. Presently, Allegiance New Jersey has approximately 5,186 business customers in New Jersey. ATI, through its operating subsidiaries, provides facilities based telecommunications services to medium to large business customers, government and other institutional users in 24 states, including New Jersey and the District of Columbia.

XO is a corporation organized and existing under the laws of the State of Delaware, with its principal office located in Reston, Virginia. XO is authorized by the Federal Communications Commission to provide interstate and international services and through one or more of its subsidiaries is authorized to provide competitive local exchange service in 48 states. In New Jersey, XO New Jersey, Inc. (formally known as NEXTLINK New Jersey Inc.) is authorized to provide

local exchange and interexchange telecommunications services. See Order I/M/O the Petition of Nextlink New Jersey Inc. for the Approval of an Initial Tariff and Related Relief, and Authority to Provide Local Exchange and Inter-Exchange Telecommunications Services throughout New Jersey, Docket No. TE98010009, dated July 30, 1998.

In May of 2003, ATI and its subsidiaries, including Allegiance New Jersey, commenced cases under chapter 11 of the Bankruptcy Code. According to the petition, following the completion of a court-supervised auction for ATI's assets conducted on February 12 and 13, 2004, XO was designated the high bidder. Subsequently, ATI and XO agreed to the terms of the transaction and executed a Purchase Agreement dated February 18, 2004. According to the agreement, XO agreed to acquire substantially all of the assets of ATI, including the stock and assets of ATI's regulated operating subsidiaries. In return, XO will deliver to ATI approximately \$311 million in cash and approximately 45.38 million shares of XO common stock. After closing, companies controlled by Carl C. Icahn will hold 54 percent of the ownership and voting interest in XO and thus of its operating companies. The Boards of Directors of XO and ATI have approved the transaction.

According to the Petition, the transaction involves no change in the entity providing service to customers, the facilities used to provide such service, or the rates, terms and conditions of such service. Allegiance New Jersey will continue to operate under the same name and operating authority as present. Therefore, the transaction will be transparent to customers. The petition also states that Allegiance New Jersey's current management team and contact for customers will remain the same after the transfer. Petitioners also state that approval of the transaction will allow Allegiance customers to continue to receive service without interruption. By letter dated March 19, 2004, the Ratepayer Advocate recommended Board approval of the petition.

FINDINGS AND CONCLUSIONS

After a thorough review of the petition and all related documents, the Board believes that, with regard to the provision of service, there will be no negative impact on service to New Jersey customers. All services will continue to be provided to Allegiance New Jersey customers without interruption and pursuant to the same tariffs, contracts, rates, terms and conditions in existence prior to the transaction.

Accordingly, after careful review of this matter, the Board FINDS that the transaction will have no negative impact on competition, on the rates of current customers, or on employees. The Board also FINDS that the transfer will have no negative impact on the provision of safe, adequate and proper service. Therefore, the Board, after investigation, having considered the record and exhibits submitted in this proceeding, FINDS that the transfer is in accordance with law and in the public interest. The Board HEREBY APPROVES the request by Petitioners for this transaction.

DATED: 4/28/04

BOARD OF PUBLIC UTILITIES
BY:

(signed)
JEANNE M. FOX
PRESIDENT

(signed)
FREDERICK F. BUTLER
COMMISSIONER

(signed)
CAROL J. MURPHY
COMMISSIONER

(signed)
CONNIE O. HUGHES
COMMISSIONER

(signed)
JACK ALTER
COMMISSIONER

ATTEST:

(signed)
KRISTI IZZO
SECRETARY